

FISCAL NOTE

Bill #: SB0502 **Title:** Extend class three, class four, class ten property reappraisal cycle

Primary Sponsor: Barkus, G **Status:** As Introduced

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$0	\$0
State Special Revenue	\$0	\$0
Revenue:		
General Fund	\$0	(\$2,368,881)
State Special Revenue- University System	\$0	(\$148,783)
Net Impact on General Fund Balance:	\$0	(\$2,368,881)

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. SB 502 extends the current law reappraisal cycle for class 3 agricultural land, class 4 residential and commercial real property, and class 10 timberland from a 6-year cycle, to a 10-year cycle. The bill also extends the current 6-year cycle an additional four years to January 1, 2012.
2. Under current law, the market value used for assessment purposes lags the "true market value" (or what the sale value would be for class 4 residential property) of a property by six (6) years. Under the proposal, the market value used for assessment purposes lags the true market value by 10 years.
3. The bill also revises the current phase-in so that properties that are appreciating would be fully phased-up by January 1, 2012 instead of January 1, 2008 under current law. The proposal will result in a taxable value decrease for these properties. Most of these properties will see a corresponding decrease in tax liability. (See local government impacts subsection 2)
4. Under the proposal, properties that experience a decrease in value due to a reappraisal will continue to have their declining values fully implemented in the first year of the new appraisal cycle. Those values will be in effect for the 10-year appraisal cycle, versus the current 6-year appraisal cycle.

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5. Under current law, properties that are depreciating would see a value reduction in tax year 2009. Under the proposal, these properties would not realize the lower value until 2013, effectively increasing the tax liability for these properties.
6. The extended property tax assistance program (EPTAP) is also extended through tax year 2012 under this legislation. (See technical note #6)
7. This bill applies to property values for tax years beginning after December 31, 2005. Starting in tax year 2006 (FY 2007), properties would be phasing up over a longer time period than under current law, resulting in a loss in taxable value. (See technical note #1)
8. The total loss in taxable value is estimated at \$24,797,249 in FY 2007. Although individual property owner impacts will vary, properties experiencing the largest increases in value will receive the largest taxable value, and tax liability decreases.
9. The average mill levy for the state general fund is 95.53 mills (95 mills plus the 1.5 mills levied in five counties for vo-techs).
10. It is estimated that property tax revenue for the state general fund would *decrease* by \$2,368,881 (\$24,797,249 x 95.53 mills) in FY 2007.
11. The mill levy for the university system is 6.00 mills.
12. It is estimated that the university 6 mill account would be *reduced* by \$148,783 (\$24,797,249 x 6 mills) in FY 2007.
13. The Department of Revenue does not anticipate additional administrative expenses associated with the bill during the biennium.

FISCAL IMPACT:

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
<u>Revenues:</u>		
General Fund (01)		(\$2,368,881)
State Special Revenue (02)- University System		(\$148,783)

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$2,368,881)
State Special Revenue (02) - University System	(\$148,783)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. This bill would significantly impact local governments and school districts due to the loss in taxable value of \$24,797,249 in FY 2007.
 - b. The statewide average mill levy for this property in tax year 2004 (FY 2005) is 543.52. Statewide mill levies have increased annually by 4.5% since FY 2001. Assuming growth of 4.5%, the statewide average mill levy would be 593.54 ($543.52 \times 104.5\% ^ 2 \text{ years}$) in FY 2007.
 - c. Removing the states 101.53 (95.53 + 6) mills, local governments and schools would have an estimated average statewide mill levy of 492.01 ($593.54 - 101.53$) in FY 2007.
 - d. The associated revenue decrease to local governments and school districts under the proposal is estimated to be \$12,200,422 ($\$24,797,249 \times 492.01$) in FY 2007.

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2. Under 15-10-420, MCA, county and city governments could float their mill levies to offset this property tax revenue loss. Since the amount of loss associated with this bill is significant, mill increases could be large; this would shift the impacts onto other taxpayers.

If local governments choose to offset the entire FY 2007 taxable value decrease, it would be necessary to increase local mills by an estimated 5.8 mills. For FY 2008, the impact effectively doubles. The same compounding effect applies for FY 2009 and FY 2010, where in FY 2010 it is estimated that mill levies would have to increase by 23.2 mills. Beyond this, the impact remains at FY 2010 levels.

The extent of the revenue loss to local school districts is dependant on the impact of the revenue loss on the guaranteed tax base (GTB) funding to the schools general fund, and each school districts choice to absorb the revenue loss or float mills to offset some or all of the revenue loss to their non-general funds.

LONG-RANGE IMPACTS:

The general fund will continue to lose revenue into future years, but the impacts compound. For example, the taxable value loss in FY 2008 would be \$48,149,109, and the general fund would lose \$4,599,684 (\$48,149,109 x 95.53 mills).

Currently, market values are determined by market conditions during one year at the end of each six-year appraisal cycle. The current six-year appraisal cycle phases in the change in true market value that is caused by appreciation of a property over the previous six-year period. The proposal would phase-in that change in market value over a ten-year period, rather than a six-year period.

Phasing-up property values to true market value, in effect, causes property values to lag behind true-market value. Under the current law six-year cycle, property values for taxing purposes lag six years behind true market value. Under the proposal, property values would lag ten years behind true market value. For property that is appreciating, this results in property values lagging even further behind true market values. For example, under the current law 6-year phase-in cycle, value for tax purposes of property that is increasing at an annual rate of 5% is always 25% below true market value. Under the proposal (a 10-year phase-in cycle), the value for tax purposes of this property would always be 37% below true market value.

TECHNICAL NOTES:

1. The proposal does not modify, or continue to decrease the tax rate, or increase the homestead and commstead exemptions over the new 10-year reappraisal cycle. This decreases taxable value through tax year 2013.
2. Under current law, all properties but classes 3, 4, and 10 are appraised annually. As illustrated under the long-range impacts section, extending the appraisal cycle to 10 years further exacerbates the existing disparity in values that occurs between tax classes.
3. As a result of *Roosevelt v. the Department of Revenue (DOR)*, when a reappraisal results in a decrease in market value of a property, the market value, taxable market value, and taxable value are fully implemented (fully phased down) during the first year of the new appraisal cycle. Properties that are decreasing in value are paying property tax levies based on their reappraisal value. Properties that are appreciating (increasing) in value are paying property taxes based on the incremental phase-in market value of the property.

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4. Under current law, in an attempt to hold values constant, the class 3 and 4 tax rate is declining each year. The class 4 residential homestead exemption is increasing each year of the appraisal cycle, as is the class 4 commercial homestead exemption. When these rate changes are coupled with the phase-in of value, a relatively stable taxable value is experienced by each property. By extending the appraisal cycle an inequity occurs for the properties that have been fully phased down per the Roosevelt decision.
5. Section 2 of the bill specifies a phase-in of 7.1% per year for tax years 2005 through 2012. However, at 7.1% phase-in, values would only reach 99.68% of full value. It is expected that DOR would make the last year of the phase-in equal 100% of full value.
6. The proposal extends the extended property tax assistance program out to 2012. However, the proposal does not modify the calculations for the extended property tax relief through 2008, so the rate calculations specified will no longer return the correct reductions. Additionally, the proposal extends the provisions of the extended property tax assistance into 2012, but no calculations are provided for tax years 2009 through 2012. The current extended property tax assistance rate calculations in 15-6-193, MCA, need to be revised and extended through 2012.